



International Accounting Standards
Board (IASB)
30 Cannon Street
London EC4M 6XH
United Kingdom

26 January 2018

Dear Board Member,

Re: Exposure Draft Definition of Material

BusinessEurope welcomes the opportunity to comment on the ED regarding the definition of Material. The definition plays a significant role in the application of the standards and a clear and understandable definition is therefore essential.

We support the alignment of the definition between the conceptual framework and the IFRS standards. We are also in favour of elevating some of the current requirements in IAS 1 paragraph 7 and 30A to the definition in order to give them more prominence.

The IASB should raise the level of its ambition to not only clarify, but to improve the definition, making it more relevant and easier to comply with. The proposed changes is a step in the right direction, but we still believe as already indicated in the comments on the discussion paper on the Disclosure Initiative in 2017 this fall that a thorough review of the disclosure requirements in each standard is also necessary to disseminate what is the material information. Although we acknowledge and welcome the IASB's amendment to IAS 1 with respect to the application of materiality, an issue remains when preparers or auditors are of the view that in case a standard deals explicitly with an issue, this guidance overrules the general guidance in IAS 1 ("lex specialis over lex generalis") and hence, the application of materiality is mitigated.

We have also noted the Board's separate project to provide entities with guidance on making materiality judgements when preparing general purpose financial statements in accordance with IFRS Standards. However, this project was based on the limits of the definition in the standards and will still in reality place a huge documentation burden on business – also for clearly immaterial items. In fact the last changes have not changed behavior significantly from the audit and regulatory side and therefore the burden on business remains essentially unchanged. The points made by the Board in BC 21 underlines the lack of ambition to impact the reporting, as the paragraph states "*the proposed amendments are **not substantive changes** and would be **unlikely to***



significantly affect how materiality judgements are made or to ***significantly affect entities' financial statements.***" (Our emphasis). BusinessEurope therefore believes that the IASB should not only clarify, but improve the definition of material, making it more relevant and easier to comply with.

The U.S. legal definition referred to in BC 16 sets the threshold higher than the IASB's current use of the word "could", and is closer to "would" as discussed in BC 10. BusinessEurope does not agree with the line of arguments about the concerns of using a legal definition from one jurisdiction. The relevant question is whether the definition better articulates the appropriate level of materiality. We believe this is the case and suggest strengthening the definition of materiality either by incorporating a reference to "substantial likelihood" or reconsidering using "Would" instead of "Could". Raising the level of materiality will better encourage not only preparers, but also auditors and regulators, to focus on the communicative element of the financial statements as the materiality concept will be closer linked to the users.

The definition should also ensure that the documentation requirements of immaterial items are reduced / removed in order to reduce the administrative burdens and costs of compliance. To this extent, including wording like 'omitting', 'misstating' and 'obscuring' is helpful in clarifying that it is also problematic to include immaterial information. However, we would also like to suggest that the IASB reviews the use of the terms 'immaterial' and 'not material' in both IAS 1 and in the Materiality Practice Statement and clarifies their meaning, as we think they are not synonymous.

Please see our detailed responses in the appendix.

If you require any further information on our comments, please do not hesitate to contact us.

Yours sincerely,

Erik Berggren
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APPENDIX

Question 1:

The Board proposes amendments to IAS 1 and IAS 8 to align the definition of material between IFRS Standards and the Conceptual Framework, and to include in the definition some of the existing requirements in IAS 1. The Board also proposes to clarify the explanation accompanying the definition using existing guidance in IAS 1 and the Conceptual Framework.

- a) Do you agree that the definition of material and the accompanying explanation should be clarified as proposed in this Exposure Draft? If you do not agree, what changes do you suggest and why?
- b) Would any wording or terminology introduced in the proposed amendments be difficult to understand or to translate?

Answer:

Businesseurope supports the alignment of the definitions. However, as we mention in the introduction, we believe the proposed text with improved clarity is better than the current, but we were hoping for a higher level of ambition than the exposed redrafting. The proposed definition still sets a low threshold making the discussions with regulators and auditors very difficult and costly and will still drive compliance / checklist reporting. This is due to the fact that "could reasonably be expected to influence decisions" is still a low threshold and is subject to potential discussions with auditors/regulators based on behavioral assumptions at best. Further, the low threshold increase the administrative burden and drives a high level of documentation burden for preparers in order to document that it is not material..

Businesseurope suggests the use of "would" instead of "could" as our preferred option. Having said this, replacing 'could influence' with 'could reasonably be expected to be influenced' to describe the threshold for deciding whether information is material is a helpful change and a small step in the right direction as it underline the fact that materiality decisions require judgement and clarifies the nature of the judgement to be made in assessing when information is material.

Businesseurope also supports the clarification on primary users as a clear key audience is essential for any effective communication.

Question 2:

The Board issued the Materiality Practice Statement in September 2017 and expects to issue a revised Conceptual Framework in the second half of 2017. If any changes are made to IFRS Standards as a result of the proposals in this Exposure Draft, the Board will make amendments to these two documents.



The Board believes that the guidance in both the Materiality Practice Statement and the forthcoming revised Conceptual Framework will not be affected by the proposed amendments in this Exposure Draft, other than to update the definition of material (see paragraphs BC22–BC24).

Do you have any comments on the proposed amendments to the Materiality Practice Statement or to the forthcoming revised Conceptual Framework?

Answer:

We generally support the update of the Practice Statement and an alignment in the revised Conceptual Framework, subject to the changes suggested above and in the answer to question 1.

Question 3: Do you have any other comments about the proposals in this Exposure Draft?

Answer:

BusinessEurope finds that by substituting the term “economic decisions” with “decisions” and “primary users” with “users”, the Board may inadvertently generate unnecessary confusion. Some constituents may argue not accept the arguments in BC15 and will thus assume that the terms are not interchangeable

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